INTERNATIONAL MONETARY FUND

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BOSNIA AND HERZEGOVINA

April 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOSNIA AND HERZEGOVINA

In the context of the Bosnia and Herzegovina - Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 20, 2020, following discussions that ended on March 27, 2020, with the officials of Bosnia and Herzegovina on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 13, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Bosnia and Herzegovina.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 20/176

IMF Executive Board Approves US$361 Million in Emergency Support to Bosnia and Herzegovina to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- Pandemic impact expected to be substantial and generate rapid external accounts deterioration;
- Economy expected to decline 5 percent in 2020 and recover to 3.5 percent in 2021
- Rapid Financing Instrument will help provide support for scaling up priority spending on health and social assistance, while preserving debt sustainability.

Washington, DC – April 20, 2020. The Executive Board of the International Monetary Fund (IMF) today approved SDR 265.2 million (about US$361 million or €333 million, 100 percent of its SDR quota) in emergency assistance for Bosnia and Herzegovina (BiH) under the Rapid Financing Instrument (RFI). It will help the country meet an urgent balance-of-payments need due to the global outbreak of the COVID-19 pandemic.

The RFI provides rapid and low-access financial assistance to member countries facing an urgent balance of payments need, without the need for a full-fledged economic program or reviews. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations. Financial assistance under the RFI is provided in the form of outright purchases.

The near-term economic impact in BiH is expected to be substantial, generating a rapid deterioration of external accounts and urgent balance of payment needs. Economic growth is expected to decline by 5 percent in 2020 and recover to around 3.5 percent in 2021.

The RFI will support the authorities' efforts to increase spending for containing COVID-19 human costs and mitigating its economic impact. The BIH governments are planning a significant fiscal expansion to ramp up health and social spending. This IMF financing will play a vital role in catalyzing emergency assistance from the international community, in particular the EU's.

The IMF will continue to monitor Bosnia and Herzegovina's situation closely and stands ready to provide policy advice.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"Bosnia and Herzegovina's economy has been suffering from the COVID-19 pandemic, which has created an urgent balance of payments need.

"Given the large and rapid deterioration of external accounts, the Rapid Financing Instrument will help provide support for scaling up priority spending on health and social assistance, while preserving debt sustainability.

"To properly address the medical emergency and large output contraction, a fiscal expansion is needed. In the short run, to mitigate the health and economic impact of the pandemic, the priority is to increase health-related spending, expand unemployment and social benefits, and provide support to firms for maintaining employment. The authorities have committed to return to a fiscal stance that stabilizes debt once the situation normalizes.

"Preserving the currency board arrangement and raising the resilience of the banking system play a crucial role for restoring external and internal balances. High frequency monitoring of the banks, including their liquidity positions and asset quality, is crucial at this juncture.

"Donor and other IFI emergency assistance is needed to close the remaining balance of payments gap."

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

April 13, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Background: Economic conditions have deteriorated rapidly as a result of the COVID-19 crisis. GDP in 2020 is projected to decline by 5 percent (a 7½ percentage point reduction relative to pre-crisis) due to plummeting external and domestic demand, aggravated by a significant slowdown in remittances. The fiscal balance in 2020 is expected to drop by 6½ percentage points of GDP, to a deficit of 4½ percent of GDP, and the current account deficit to widen to about 7½ percent of GDP due to a decline in exports and remittances. The strong fiscal position, achieved over the last few years, provides room for a temporarily increased deficit. The projections are subject to an unprecedented high level of uncertainty.

Program Status. The first review under the current Extended Arrangement (EFF, 167 percent of quota) was completed in February 2018, including a one-year extension to September 2020. No further reviews were completed, owing mainly to a prolonged government formation process following the elections of October 2018 and slow reform implementation. Given the urgency of the request, the authorities are not in a position to request an augmentation under the EFF. The authorities have expressed an interest in a successor EFF.

Request. The Bosnia and Herzegovina (BiH) authorities are requesting financial assistance under the Rapid Financing Instrument (RFI), equivalent to 100 percent of quota (about €330 million), to help close the projected urgent balance of payments need, which, if not addressed, would result in immediate and severe economic disruption.

Key policy recommendations:

- Pursue an expansionary fiscal stance by increasing and prioritizing health spending and deploying resources to the unemployed, social safety net recipients and affected firms.
- Preserve the soundness of the financial system and stability of the currency board. Monitor the liquidity and capital position of banks frequently. Adopt the long-overdue Deposit Insurance (DI) law and renew an EBRD credit line to strengthen the banking sector.

Financing, debt sustainability, and capacity to repay. The RFI purchase will help fill a significant share of the projected 2020 external financing gap (€910 million, 5½ percent of GDP) while helping catalyze further donor support. Public debt is low and sustainable even after the current shock. The capacity to repay is adequate.

Approved By
Jörg Decressin (EUR) and Kevin Fletcher (SPR)

Discussions took place remotely during March 26–27, 2020. Messrs. Petri (head), Cipollone, Zhang (all EUR), Nakatani (FAD), Omoev (SPR), Suganuma (MCM), Jewell (Resident Representative), Music and Ms. Cegar (local economists). Ms. Teskeredzic and Mr. Fazlagic provided local support. Mses. Batog and Samuel (both EUR) assisted with the preparation of this report.

CONTENTS

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **The economic outlook has deteriorated substantially in 2020 as a result of the COVID-19 crisis.** Pre-crisis, staff projected economic growth of 2½ percent, a fiscal surplus of 1 percent of GDP, and a current account deficit of 3½ percent of GDP with some reserve accumulation and low but adequate international reserves. Debt was judged to be sustainable. The financial sector was judged to be adequately capitalized and highly liquid on average.

2. **Reviews under the existing EFF were delayed.** BiH's EFF was approved in September 2016 with only one review concluded in February 2018. The second review was postponed in July 2018 due to the authorities' announcement of policies, which were inconsistent with program objectives. Following the October 2018 general elections, protracted delays in governments formation made program re-engagement difficult. Many structural reforms were delayed but fiscal performance was significantly better than programed.

3. **Economic activity is tentatively projected to decline by 5 percent in 2020 (7½ percentage points less than pre-crisis) on account of a pronounced fall in exports and remittances and reduced domestic demand and supply.** Fiscal revenues are projected to decline by 2¼ percent of GDP. Absent exceptional financing, these developments would reduce the central bank's gross international reserves to 92 percent of the standard Fund reserve adequacy (ARA) metric. Given the need to support confidence in the currency board amidst fragile financial market conditions, there is an urgent BOP financing need in 2020, which is assessed to be some €910 million, or 5½ percent of GDP.

4. **The economic outlook is subject to major downside risks.** Early and decisive action by the BiH authorities appear to have slowed the spread of the disease, but at high economic cost. The authorities have closed borders, schools, universities, and all non-essential shops, and there are significant movement restrictions and curfews. As of April 13, there were 886 recorded cases and 36 deaths. However, if severe restrictions were to be sustained beyond mid-2020, this could require further, large downward reductions in growth. So would additional mark-downs to the global outlook. The BOP need would widen accordingly.

5. **High political uncertainties pose additional downside risks.** Despite a recent easing of political tensions, the complexity of the political environment is a downside risk, which could lead to policy slippage and weakened response measures.

POLICY DISCUSSION AND CHALLENGES

A. Fiscal Policy

6. **Prudent budgetary policy in recent years has generated fiscal space, but the COVID-19 crisis is causing significant fiscal pressure for 2020**. A large fiscal expansion is needed to substantially raise spending for pandemic containment and mitigation. The 2020 fiscal position is

projected to move from a surplus of around 2 percent of GDP in 2019 to a deficit of 4½ percent of GDP on account of higher health, social, and economic-support spending as well as revenue shortfalls. The authorities in the Federation of BiH (FBiH) and the Republika Srpska (RS) plan to reflect additional spending in revised budgets, currently under preparation. The Institutions of BiH should also revise their 2020 budget. It will be important to have strong safeguards for the additional spending, ideally within the regular budget process that has appropriate controls. In 2020, the fiscal financing gap of 2½ percent of GDP would be mainly financed by the IMF, EU, and World Bank.

7. Spending to tackle the COVID-19 crisis should increase substantially. Current spending, largely health transfers and social benefits, is projected to increase by 5½ percent of GDP compared to 2019. This sharp increase is needed to ramp up COVID-19 prevention, testing, monitoring, and treatment. The projections include, for the health sector, the assumption of bank debts, arrears to suppliers, and settlements of intergovernmental arrears. Staff supports the authorities' plans to pay unemployment benefits on a timely basis and expand social benefit programs for the most vulnerable. The authorities are considering how best to provide relief to companies temporarily affected by the crisis through loan guarantees and other subsidies. They plan to establish temporary solidarity funds, financed by public employees with higher salaries and other donors on a voluntary basis. Additional spending, guarantees, or other off-budget items should be recorded transparently in revised budget documents. Public investment is projected to fall by 1 percent of GDP due to implementation constraints.

8. The projected decrease in tax revenues is related to lower nominal growth and payment delays, with no significant policy changes. Government revenues are projected to decline by 2¼ percent of GDP compared to 2019, mainly for personal and corporate income taxes and social security contributions. Staff supports the authorities' decision to leave the tax policy mostly unchanged and to temporarily delay tax due dates for direct taxes.

9. Public debt will remain low and sustainable even with the current shock. The debt sustainability analysis (Annex II) suggests that public debt levels are sustainable even with the COVID-19 shock and would decline to around 26 percent of GDP by 2025. External financing will continue to be provided by IFIs, largely for project financing. After the crisis subsides, the authorities should return to a fiscal stance that broadly stabilizes debt at 2019 levels over the medium term.

B. Financial Sector

10. While the banking system appears well-capitalized and liquid on average, enhanced monitoring is warranted. Despite excess bank liquidity, staff and the authorities concurred on the need for conducting high frequency, bank-by-bank assessments of liquidity positions. Any liquidity or capital buffers should be used as needed. The authorities have introduced enhanced, daily, supervisory reporting to help anticipate and address any liquidity strains.

11. **High credit exposure to the sectors hardest-hit by COVID-19 might undermine banking lending activity and compromise asset quality.** Any financial regulatory and supervisory measures to deal with distressed borrowers should be well-targeted, transparent, and temporary. Staff supports the recent supervisors' decision to introduce a six-month framework for moratoria on loan repayments on a case-by-case basis. Supervisors should revisit their crisis management plans. There should not be any forbearance on banks' loan classification processes and loan-loss provisioning, which should fully reflect the implications of the debt moratoria. The authorities prohibited dividend and bonus payments by banks to be better prepared for the crisis. They may consider temporarily suspending the ability of creditors to file for insolvency against borrowers. If banks' asset quality were to be compromised, supervisors should require affected banks to submit realistic recapitalization plans.

12. **The currency board arrangement (CBA) continues to serve the BiH economy well but has come under some political pressure in the current crisis.** The CBA has provided a credible anchor for the stability of the financial system. Therefore, the Central Bank of BiH (CBBH) should continue to use its reserves exclusively for the currency board coverage and not for fiscal purposes**.** Under the CBA, the CBBH is not allowed to provide credit to government or liquidity support to banks. However, the CBBH could lower the reserve requirement ratio for banks. The CBBH should modernize the reserve requirement framework by introducing tools to better defend the convertible mark and thus strengthen the CBA.

13. **The Standing Committee for Financial Stability (SCFS) should continuously monitor the stability of the BiH financial system**. This should be done with higher frequency, in order to identify sources of systemic risks and adopt well-targeted mitigating measures. The banking resolution framework should be enhanced by adopting the long-overdue new deposit insurance (DI) law and renewing new EBRD credit line for the DI system.

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

14. **The authorities requested a purchase under the Rapid Financing Instrument (RFI) in an amount equivalent to 100 percent of quota (SDR 265.2 million).** The overarching objectives of the RFI is to respond to the COVID-19 crisis and preserve macroeconomic stability.

15. **The proposed purchase under the RFI would contribute towards closing the external financing gap for 2020.** The sharp worsening of the current account deficit, together with a less favorable financial flows, will generate an external financing gap of €910 million in 2020, despite a drawdown of CBBH reserves of 2/3 percent of GDP (some €100 million). A larger drawdown of international reserves should be avoided in a currency board, where it would have a negative impact on economic activity. The RFI would cover one third of the financing gap. The RFI will play a catalytic role for further donor support. The EU, World Bank, and EBRD also plan to provide emergency assistance, which is currently estimated at about €100 million, but will likely increase.

16. The RFI will be anchored by the authorities' policy commitments consistent with addressing the urgent BOP needs. The authorities' policy commitments, outlined in the Letter of Intent (LOI, Annex I), help address the exceptional challenges caused by the COVID-19 crisis and are broadly consistent with the existing EFF arrangement. Staff welcomes the authorities' commitment to have an updated safeguards assessment in line with the Fund's policy on safeguards assessments. The RFI purchase will be on-lent to entity governments and the related Memorandum of Understanding signed under the EFF arrangement will be updated.

17. RFI qualification and other considerations. The structural reforms needed to modernize the economy would be better tackled with a multi-year program. However, the urgent BOP needs and the authorities' immediate focus on dealing with the COVID-19 crisis make it unfeasible to complete a review or engage in discussions on a multiyear program at this juncture. A successor arrangement would likely focus on health, public enterprise, and PFM reforms.

18. BiH's capacity to repay the Fund is adequate. The BiH has established a good track record of timely repayment of external obligations to creditors. After the RFI purchase, outstanding Fund purchases will close to 150 percent of quota at end-2020 (3 percent of GDP). Debt sustainability analysis suggests that debt is sustainable.

STAFF APPRAISAL

19. Staff supports the authorities' request for a purchase under the RFI considering the urgent nature of the external financing needs caused by the COVID-19 crisis. The proposed purchase in the amount of 100 percent of quota will contribute to closing the external financing gap in 2020. The authorities' policy commitments, set in the LOI, are consistent with the objectives under the existing EFF-supported program. Staff has confidence that the authorities will cooperate with the Fund on appropriate policies going forward.

20. The COVID-19 crisis is expected to have a severe impact on the BiH economy. The economy is projected to be in recession in 2020 with a recovery expected in 2021. All sectors have been impacted, in particular customer-facing services. The human cost of the crisis is large and growing. A protracted recession in the EU could have an even more severe impact on 2020 and medium-term prospects. The projections are subject to unprecedented downside risks.

21. Fiscal policy will turn expansionary to provide resources to contain and mitigate COVID-19 crisis. After a few years of strong budgetary performance, the fiscal position in 2020 will turn into deficit due to higher current spending and lower revenues. The fiscal expansion will help contain the spread of the disease, treat affected persons, and provide support to individuals and companies. The authorities should use existing social safety mechanisms to maximum effect. Additional measures should be well-targeted while being legally and administratively manageable. Staff encourages the FBiH, RS and Institutions of BiH authorities to revise their budgets to fully incorporate the impact of the crisis.

22. **Medical supplies need to be secured and deployed immediately to treat patients and reduce contagion by testing and monitoring**. Entity governments in cooperation with lower-level authorities should coordinate closely on measures and communication policy. Staff supports the authorities' plan to clear arrears in the health sector.

23. **The financial system appears well capitalized and liquid but needs to be closely monitored.** High-frequency monitoring focusing on liquidity positions and asset quality is necessary, while allowing banks to use available liquidity and capital buffers. Direct or indirect financial assistance to firms should be targeted to the most affected companies. The long-overdue new DI law should be passed and the EBRD credit line for the DI system renewed.

24. **Preserving the currency board (CBA) is needed for financial stability.** The CBA serves BiH well by providing a credible anchor for expectations. Staff welcomes the authorities' commitments to strengthen the CBA while refraining from using CBBH resources for fiscal purposes. The CBBH should modernize its reserve-requirement framework by introducing tools to better defend the convertible mark thus strengthening the CBA.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
Nominal GDP (KM million)	31,376	33,408	34,682	32,856	34,441	35,879	37,530	39,306	41,292
Gross national saving (in percent of GDP)	16.1	17.2	17.8	12.0	14.5	14.9	15.1	15.7	15.6
Gross investment (in percent of GDP)	20.4	20.9	21.4	19.5	20.1	20.2	20.3	20.3	20.2
				(Percent change)					
Real GDP	3.1	3.6	2.7	-5.0	3.5	2.8	2.9	2.9	3.0
GDP Deflator	1.8	2.8	1.1	-0.3	1.3	1.3	1.7	1.8	2.0
CPI (period average)	0.8	1.4	0.7	-0.6	1.4	1.5	1.7	1.8	2.0
Money and credit (end of period)									
Broad money	10.5	9.0	5.9	1.5	2.4	4.2	4.6	4.7	5.1
Credit to the private sector	7.3	5.6	6.4	-5.3	8.2	5.0	5.5	5.7	6.1
				(In percent of GDP)					
Operations of the general government									
Revenue	42.6	43.0	43.1	40.8	43.0	43.0	43.1	43.0	43.0
Of which: grants	0.7	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure	40.8	41.3	40.8	45.2	42.1	42.1	42.0	41.8	41.9
Of which: investment expenditure	3.8	3.9	4.2	3.2	3.8	3.9	4.0	4.0	4.0
Net lending	1.8	1.7	2.2	-4.4	1.0	0.9	1.1	1.2	1.0
Net lending, excluding interest payment	2.6	2.4	2.9	-3.6	1.8	1.7	1.8	1.8	1.8
Total public debt	39.2	34.3	32.8	38.0	35.3	33.4	29.7	27.3	25.7
Domestic public debt 1/2/	13.3	9.8	9.5	11.2	9.7	8.6	7.9	6.3	5.5
External public debt	26.0	24.5	23.4	26.8	25.6	24.8	21.8	21.1	20.2
				(In millions of euros)					
Balance of payments									
Exports of goods and services	6,550	7,203	7,215	6,182	6,489	6,783	7,057	7,296	7,639
Imports of goods and services	9,151	9,764	9,944	8,947	9,368	9,791	10,187	10,528	11,044
Current transfers, net	1,962	1,978	2,126	1,545	1,924	2,035	2,097	2,272	2,357
Current account balance	-697	-633	-632	-1,256	-977	-970	-1,000	-919	-986
(In percent of GDP)	-4.3	-3.7	-3.6	-7.5	-5.5	-5.3	-5.2	-4.6	-4.7
Foreign direct investment (+=inflow)	329.7	428.3	480.3	295.6	338.9	385.7	428.5	458.5	480.0
(In percent of GDP)	2.1	2.5	2.7	1.8	1.9	2.1	2.2	2.3	2.3
Gross official reserves	5,411	5,956	6,455	6,353	6,294	6,376	6,504	6,805	7,114
(In months of imports)	6.6	7.2	8.7	8.1	7.7	7.5	7.4	7.4	7.4
(In percent of monetary base)	112.2	112.0	113.5	112.7	116.5	115.1	111.7	111.9	111.3
External debt, percent of GDP 3/	72.0	64.5	65.4	72.4	69.5	67.6	63.3	61.3	59.1
Unemployment rate	20.5	18.4	15.7	--	--	--	--	--	--
GDP per capita (in euros)	4,574	4,875	5,064	4,802	5,043	5,265	5,522	5,799	6,108

Sources: BiH authorities; and IMF staff estimates and projections.

1/ On average, half of the domestic debt stock is indexed to the Euro.

2/ The stock of domestic public debt does not include wage arrears, including court decisions cases, which have been broadly estimated in the range of KM 450-500 million. It also does not include health sector liabilities and those of public enterprises

3/ Includes inter-company loans in private external debt.

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
Real aggregates					(Percent change)				
Growth rates									
GDP at constant 2010 prices	3.1	3.6	2.7	-5.0	3.5	2.8	2.9	2.9	3.0
Domestic demand	2.0	3.5	3.4	-3.7	3.4	2.7	3.0	2.6	2.9
Private	2.1	4.0	2.6	-4.0	3.6	2.6	3.0	2.5	2.9
Public	1.9	1.7	6.1	-2.5	2.8	3.0	2.9	2.7	3.0
Consumption	0.3	2.7	2.9	-1.8	2.5	2.5	2.9	2.5	2.9
Private	0.0	3.3	2.4	-3.1	3.5	2.5	2.9	2.4	2.9
Public	1.5	0.6	4.8	2.9	-0.9	2.5	2.6	2.7	3.0
Gross capital formation	10.4	7.2	5.3	-11.5	7.6	3.6	3.4	3.0	3.2
Private	11.9	7.1	3.7	-7.7	3.9	3.1	3.2	3.0	3.2
Public	4.1	7.3	12.7	-27.1	26.6	5.6	4.4	3.0	3.3
Net Exports									
Exports of goods and services	13.4	5.0	-2.1	-10.3	6.3	4.0	2.9	2.3	4.0
Imports of goods and services	7.8	4.4	0.6	-6.0	5.2	3.4	3.0	1.8	3.5
Contributions to real GDP growth					(Year-on-year change over real GDP in previous year, in percent)				
GDP at constant 2010 prices	3.1	3.6	2.7	-5.0	3.5	2.8	2.9	2.9	3.0
Domestic demand	2.4	4.1	3.9	-4.3	4.1	3.2	3.5	3.1	3.5
Private	1.9	3.7	2.5	-3.7	3.4	2.4	2.8	2.4	2.7
Public	0.5	0.4	1.5	-0.6	0.7	0.8	0.8	0.7	0.8
Consumption	0.3	2.6	2.8	-1.7	2.5	2.4	2.8	2.4	2.8
Private	0.0	2.5	1.8	-2.3	2.7	1.9	2.2	1.8	2.1
Public	0.3	0.1	1.0	0.6	-0.2	0.5	0.6	0.6	0.6
Gross capital formation	2.1	1.6	1.2	-2.7	1.6	0.8	0.8	0.7	0.7
Private	1.9	1.3	0.7	-1.4	0.7	0.6	0.6	0.5	0.6
Public	0.2	0.3	0.5	-1.2	0.9	0.2	0.2	0.1	0.1
Net Exports	0.7	-0.5	-1.2	-0.7	-0.6	-0.4	-0.6	-0.2	-0.5
Exports of goods and services	5.1	2.1	-0.9	-4.1	2.4	1.6	1.1	0.9	1.6
Imports of goods and services	4.4	2.6	0.4	-3.5	3.0	2.0	1.8	1.1	2.1
Deflators					(Percent Change)				
GDP	1.8	2.8	1.1	-0.3	1.3	1.3	1.7	1.8	2.0
Domestic demand	2.5	1.7	0.8	-0.7	1.3	1.5	1.5	1.9	2.1
Consumption	2.6	1.8	0.8	-0.5	1.5	1.5	1.6	2.0	2.2
Investment	2.8	1.8	0.7	-2.5	0.4	1.3	1.4	1.7	1.7
Exports of goods and services	4.1	4.6	2.2	-4.5	-1.3	0.5	1.1	1.1	0.7
Imports of goods and services	5.1	2.1	1.1	-4.3	-0.5	1.1	1.0	1.5	1.3
Nominal aggregates									
Nominal GDP (KM million)	31,376	33,408	34,682	32,856	34,441	35,879	37,530	39,306	41,292
					(In percent of GDP)				
Consumption	95.8	94.1	94.0	97.0	96.3	96.2	96.0	95.8	95.9
Private	75.5	74.4	74.0	75.4	75.6	75.5	75.4	75.3	75.3
Public	20.3	19.6	20.0	21.5	20.6	20.6	20.6	20.5	20.5
Gross capital formation	20.4	20.9	21.4	19.5	20.1	20.2	20.3	20.3	20.2
Private	16.7	17.1	17.2	16.3	16.3	16.3	16.3	16.3	16.3
Public	3.8	3.9	4.2	3.2	3.8	3.9	4.0	4.0	4.0
National Savings	16.1	17.2	17.8	12.0	14.5	14.9	15.1	15.7	15.6
Private	9.6	11.3	10.4	11.8	9.3	9.6	9.4	10.0	10.0
Public	6.4	5.9	7.4	0.2	5.3	5.4	5.7	5.7	5.6
Saving-Investment balance	-4.4	-3.7	-3.6	-7.5	-5.5	-5.3	-5.2	-4.6	-4.7
Labor market					(In percent)				
Unemployment rate (ILO definition) [1]	20.5	18.4	15.7	--	--	--	--	--	--

Source: BiH, FBiH and RS Statistical Agencies, and Fund staff estimates.

[1] Based on the BiH Labor Survey. The unemployment rate based on the number of unemployed persons registered in Unemployment Offices is significantly higher.

Table 3. Bosnia and Herzegovina: Balance of Payments, 2017–25 1/

(In millions of Euros, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.	Proj.					
A. Current account	-697	-633	-632	-1,256	-977	-970	-1,000	-919	-986
Trade balance	-2,601	-2,562	-2,729	-2,765	-2,879	-3,008	-3,130	-3,232	-3,405
Goods	-3,792	-3,831	-4,076	-3,825	-4,066	-4,349	-4,553	-4,726	-4,966
Export of goods (fob)	4,776	5,327	5,202	4,577	4,693	4,824	5,007	5,166	5,443
Import of goods (fob)	-8,568	-9,158	-9,278	-8,402	-8,759	-9,173	-9,560	-9,892	-10,409
Services (net)	1,191	1,270	1,347	1,059	1,187	1,341	1,423	1,494	1,561
Exports	1,774	1,876	2,013	1,605	1,795	1,959	2,050	2,130	2,196
Imports	-583	-606	-666	-545	-609	-618	-627	-636	-635
Primary Income (net)	-58	-49	-28	-36	-22	3	33	41	62
Total credit	492	481	513	511	551	601	656	716	781
Total debit	-550	-530	-542	-548	-573	-598	-623	-676	-720
Of which, Interest payments	-84	-81	-75	-102	-107	-115	-121	-154	-177
Secondary Income (net)	1,962	1,978	2,126	1,545	1,924	2,035	2,097	2,272	2,357
Of which Government (net)	164	147	140	150	162	174	187	203	220
Workers' remittances	1,304	1,317	1,445	929	1,277	1,370	1,415	1,563	1,613
Other (NGOs etc.)	598	611	634	663	693	707	721	742	772
B. Capital account	175	161	162	164	166	169	171	174	178
Capital transfers (net)	175	161	162	164	166	169	171	174	178
General government	134	121	114	117	119	121	124	126	130
Other sectors	41	40	47	47	47	47	47	48	48
C. Financial account	-1,066	-1,077	-848	-80	-482	-663	-737	-1,046	-1,117
Direct investment (net)	-330	-428	-480	-296	-339	-386	-428	-459	-480
Assets	85	-17	-21	12	16	-3	1	7	5
Liabilities	415	412	459	308	354	383	429	465	485
Portfolio investment (net)	-2	-29	20	-4	-7	-4	-4	-24	-24
Other investment (net)	-735	-620	-388	220	-137	-273	-305	-563	-613
Assets (net)	-354	87	133	309	358	320	166	111	76
Short-term	-219	108	132	322	370	330	181	127	93
Banks	54	433	222	375	474	386	229	174	128
Other sectors, excl. government and central bank	-275	-328	-79	-42	-94	-45	-38	-37	-25
Medium and long-term	-135	-20	1	-13	-13	-11	-15	-16	-16
Banks	6	4	27	12	13	16	13	13	14
Other sectors, excl. government and central bank	-35	-24	-26	-25	-26	-27	-28	-29	-31
Liabilities (net)	380	707	521	89	494	593	471	675	689
Short-term	562	725	363	31	127	130	121	126	128
General government	0	0	0	0	0	0	0	0	1
Banks	73	275	-42	0	80	84	88	92	97
Other sectors	489	450	405	31	47	46	33	34	30
Medium and long-term	-182	-17	158	59	368	463	350	549	561
Monetary authority	0	0	0	0	0	0	0	0	0
General government	-138	-25	-17	-42	21	59	-171	83	63
Disbursements of loans	266	381	303	301	358	387	418	442	464
Project	266	305	303	291	338	367	393	412	433
Budget	0	76	0	0	0	0	0	0	0
Amortization of loans	405	406	321	343	337	329	590	359	400
Banks	-13	-45	81	-6	180	209	288	232	238
Other sectors	-31	52	94	106	167	196	233	234	260
D. Errors and omissions	117	123	195	0	0	0	0	0	0
Overall balance (A+B-C+D)	661	728	573	-1,012	-328	-138	-92	301	309
Financing	-661	-728	-573	1,012	328	138	92	-301	-309
Change in net international reserves ("-"=increase)	-661	-728	-573	102	58	-82	-128	-301	-309
External financing gap	0	0	0	910	270	220	220	0	0
IMF	0	0	0	329	0	0	0	0	0
World Bank	0	0	0	18	0	0	0	0	0
EU and unidentified financing	0	0	0	563	270	220	220	0	0
Memorandum items									
Current account balance (in percent of GDP)	-4.3	-3.7	-3.6	-7.5	-5.5	-5.3	-5.2	-4.6	-4.7
Trade balance-Goods (in percent of GDP)	-23.6	-22.4	-23.0	-22.8	-23.1	-23.7	-23.7	-23.5	-23.5
Import of goods (change, percent)	13.3	6.9	1.3	-9.4	4.3	4.7	4.2	3.5	5.2
Export of goods (change, percent)	21.3	11.5	-2.3	-12.0	2.5	2.8	3.8	3.2	5.4
Transfers (in percent of GDP)	12.2	11.6	12.0	9.2	10.9	11.1	10.9	11.3	11.2
Net foreign direct investment (in percent of GDP)	-2.1	-2.5	-2.7	-1.8	-1.9	-2.1	-2.2	-2.3	-2.3
External debt/GDP (in percent)	72.0	64.5	65.4	72.4	69.5	67.6	63.3	61.3	59.1
Private sector	44.4	40.7	42.2	45.4	43.9	42.8	41.5	40.2	38.9
Public sector	27.6	23.8	23.2	27.0	25.7	24.8	21.8	21.1	20.2
External debt service/GNFS exports (percent)	19.4	17.9	17.3	20.3	19.4	18.6	21.8	18.4	18.5
Gross official reserves (in millions of Euro)	5,411	5,956	6,455	6,353	6,294	6,376	6,504	6,805	7,114
(In months of prospective imports of goods and services)	6.6	7.2	8.7	8.1	7.7	7.5	7.4	7.4	7.4
Reserves/IMF ARA metric (percent)- program scenario	101.6	102.7	106.4	103.8	102.5	100.5	100.3	101.8	104.5

Sources: BiH authorities; and IMF staff estimates and projections.

1/ Based on BPM6.

Table 4a. Bosnia and Herzegovina: General Government Statement of Operations, 2017–25

(In percent of GDP)

	2017	2018	2018	2019	2020	2021	2022	2023	2024	2025
		GFSM2001	GFSM2014	Est.			Proj.			
Revenue	**42.6**	**43.0**	**42.7**	**43.1**	**40.8**	**43.0**	**43.0**	**43.1**	**43.0**	**43.0**
Taxes	22.3	22.9	23.4	23.4	22.6	23.4	23.4	23.3	23.2	23.2
Direct taxes	4.0	4.2	4.0	3.9	3.2	3.9	3.9	3.9	3.9	3.9
Individual income taxes	1.8	1.8	1.8	1.7	1.4	1.7	1.7	1.7	1.7	1.7
Corporate income tax	1.8	1.9	1.9	2.0	1.6	2.0	2.0	2.0	2.0	2.0
Indirect taxes	18.2	18.7	19.3	19.4	19.2	19.3	19.3	19.3	19.2	19.1
Other taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	14.9	15.1	15.1	15.4	14.1	15.4	15.4	15.4	15.4	15.4
Grants	0.7	0.6	0.5	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Other revenue	4.7	4.4	3.8	3.7	3.6	3.8	3.8	3.9	3.9	3.9
Expenditure	**40.8**	**41.3**	**41.2**	**40.8**	**45.2**	**42.1**	**42.1**	**42.0**	**41.8**	**41.9**
Expense	**37.0**	**37.5**	**37.4**	**36.6**	**42.0**	**38.3**	**38.1**	**38.0**	**37.9**	**37.9**
Compensation of employees	10.6	10.4	10.3	10.7	11.2	11.0	11.0	11.0	11.0	11.0
Use of goods and services	7.2	7.3	7.2	7.3	8.2	7.6	7.6	7.6	7.6	7.5
Social benefits	15.1	14.9	15.0	14.9	18.4	15.8	15.8	15.8	15.7	15.7
Interest	0.8	0.7	0.8	0.7	0.9	0.8	0.8	0.7	0.6	0.7
Subsidies	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Other expense	1.9	2.7	2.8	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Net acquisition of nonfinancial assets	**3.8**	**3.9**	**3.8**	**4.2**	**3.2**	**3.8**	**3.9**	**4.0**	**4.0**	**4.0**
Acquisition of nonfinancial assets	3.9	4.0	3.9	4.3	3.2	3.9	4.0	4.1	4.1	4.1
Foreign financed capital spending	2.1	1.6	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Domestically financed capital spending	1.8	2.4	2.4	2.7	1.5	2.3	2.3	2.3	2.3	2.3
Disposal of nonfinancial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross / Net Operating Balance (revenue minus expense)	**5.6**	**5.5**	**5.2**	**6.4**	**-1.3**	**4.8**	**4.9**	**5.1**	**5.2**	**5.0**
Net lending/borrowing (revenue minus expenditure)	**1.8**	**1.7**	**1.5**	**2.2**	**-4.4**	**1.0**	**0.9**	**1.1**	**1.2**	**1.0**
Net acquisition of financial assets	**-0.5**	**-0.2**	**-0.4**	**1.0**	**-0.7**	**0.2**	**0.3**	**-0.8**	**0.0**	**0.5**
Domestic assets	0.2	-0.2	-0.4	1.0	-0.7	0.2	0.3	-0.8	0.0	0.5
Currency and deposits	0.6	0.1	0.1	0.8	-0.8	0.0	0.2	-0.9	0.0	0.5
Loans	-0.1	0.3	0.1	0.0	0.0	0.2	0.0	0.0	-0.1	-0.1
Equity and investment fund shares	0.0	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**-1.6**	**-0.4**	**-0.7**	**-1.0**	**1.2**	**-0.7**	**-0.7**	**-1.9**	**-1.3**	**-0.5**
Domestic liabilities	-0.4	-1.1	-1.3	-0.7	1.6	-0.5	-0.7	0.1	-1.3	-0.5
Debt securities	0.1	-0.9	-1.0	0.5	2.5	-0.1	0.3	0.3	-0.9	-0.3
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.9	-0.2	-0.4	-0.1
Loans	0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	-1.3	0.6	0.6	-0.3	-0.4	-0.2	0.0	-2.1	0.1	0.0
Loans	-1.2	-0.3	-0.3	-0.3	-0.4	-0.2	0.0	-1.2	0.1	0.0
Drawings	1.6	2.2	2.2	1.8	1.6	1.7	1.8	1.9	1.9	1.9
Amortization	2.8	2.6	2.6	2.0	2.0	1.9	1.8	3.0	1.8	1.9
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-0.6**	**-1.4**	**-1.2**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items										
Net lending excluding externally-financed operations	3.3	2.8	2.6	3.3	-3.1	2.2	2.2	2.5	2.6	2.4
Structural balance (% of potential GDP)	1.4	0.4	0.6	0.6	-2.7	1.9	1.6	1.5	1.4	1.0

Sources: BiH authorities; and IMF staff estimates and projections.

Table 4b. Bosnia and Herzegovina: General Government Statement of Operations, 2017–25

(KM million)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.	Proj.					
Revenue	**13,359.4**	**14,356.0**	**14,932.3**	**13,392.7**	**14,823.3**	**15,420.7**	**16,184.6**	**16,915.6**	**17,737.9**
Taxes	6,987.2	7,653.5	8,105.5	7,411.5	8,049.1	8,383.1	8,755.3	9,136.3	9,566.9
Direct taxes	1,263.7	1,396.4	1,355.7	1,058.1	1,353.7	1,410.2	1,475.1	1,544.9	1,623.9
Indirect taxes	5,710.8	6,232.1	6,716.3	6,317.9	6,658.3	6,934.1	7,239.7	7,549.0	7,897.4
Other taxes	12.6	25.0	33.5	35.5	37.2	38.7	40.5	42.4	45.6
Social security contributions	4,679.8	5,047.3	5,342.2	4,646.6	5,308.4	5,530.0	5,784.5	6,058.2	6,365.3
Grants	204.2	188.2	199.8	142.0	149.1	156.4	164.1	173.1	183.4
For budget support	23.8	28.2	18.5	17.5	18.3	19.1	20.0	20.9	22.0
For investment projects	180.5	160.0	181.3	124.5	130.8	137.3	144.1	152.2	161.4
Other revenue	1,488.2	1,467.1	1,284.8	1,192.7	1,316.6	1,351.2	1,480.7	1,548.0	1,622.2
Expenditure	**12,790.3**	**13,802.1**	**14,163.7**	**14,846.2**	**14,495.9**	**15,091.0**	**15,760.5**	**16,445.5**	**17,311.8**
Expense	**11,611.6**	**12,514.8**	**12,702.9**	**13,807.9**	**13,175.6**	**13,678.4**	**14,265.2**	**14,879.7**	**15,668.0**
Compensation of employees	3,340.9	3,486.4	3,711.6	3,672.6	3,796.7	3,948.0	4,122.2	4,310.1	4,536.2
Use of goods and services	2,254.6	2,425.9	2,525.5	2,705.7	2,611.5	2,722.7	2,840.8	2,967.7	3,109.6
Social benefits	4,727.9	4,994.4	5,156.2	6,041.6	5,444.6	5,653.7	5,912.0	6,189.0	6,497.4
Interest	259.5	249.9	253.3	283.7	280.2	273.8	266.8	242.9	299.8
Interest payments to nonresidents	128.4	139.6	166.8	181.0	188.7	185.4	175.4	156.3	216.1
Interest payments to residents other than general government	131.2	110.3	86.6	102.7	91.5	88.5	91.4	86.6	83.7
Interest payments to other general government units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	428.9	464.2	470.4	461.7	474.9	489.5	506.2	524.2	544.3
Grants	16.4	16.0	0.1	0.0	0.0	0.0	0.0	0.0	1.0
Other expense	599.7	894.8	585.7	542.5	567.6	590.7	617.3	645.8	678.8
Net acquisition of nonfinancial assets	**1,178.7**	**1,287.3**	**1,460.8**	**1,038.3**	**1,320.3**	**1,412.5**	**1,495.4**	**1,565.8**	**1,643.8**
Acquisition of nonfinancial assets	1,223.6	1,327.8	1,497.0	1,067.3	1,350.3	1,443.4	1,527.3	1,598.9	1,679.2
Foreign financed capital spending	648.8	525.3	570.8	559.7	568.4	608.8	654.3	684.6	718.7
Domestically financed capital spending	574.8	802.5	926.3	507.6	781.9	834.6	873.0	914.3	960.5
Disposal of nonfinancial assets	44.9	40.5	36.2	28.9	29.9	30.9	31.9	33.1	35.4
Gross / Net Operating Balance (revenue minus expense)	**1,747.8**	**1,841.2**	**2,229.4**	**-415.2**	**1,647.7**	**1,742.3**	**1,919.4**	**2,035.9**	**2,069.9**
Net lending/borrowing (revenue minus expenditure)	**569.1**	**553.9**	**768.6**	**-1,453.5**	**327.4**	**329.7**	**424.1**	**470.1**	**426.1**
Net acquisition of financial assets	**-141.9**	**-50.7**	**346.3**	**-243.7**	**80.2**	**97.1**	**-292.8**	**-19.2**	**213.5**
Domestic assets	62.5	-50.7	346.3	-243.7	80.2	97.1	-292.8	-19.2	212.5
Currency and deposits	180.5	20.4	291.9	-279.3	-3.4	54.6	-338.6	-15.9	204.0
Loans	-42.0	105.7	12.7	7.1	54.2	12.1	14.5	-35.7	-26.1
Equity and investment fund shares	1.0	-163.9	7.7	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3
Foreign assets	-204.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Net incurrence of liabilities	**-510.9**	**-150.3**	**-335.2**	**396.7**	**-249.1**	**-234.7**	**-718.9**	**-491.3**	**-214.8**
Domestic liabilities	-117.7	-357.7	-232.6	538.4	-188.2	-243.5	51.4	-519.7	-207.7
Debt securities	31.1	-299.9	161.1	823.3	-24.5	96.0	113.5	-347.0	-138.8
Issuance	627.4	219.9	490.6	1,087.0	619.0	707.0	949.0	495.0	463.0
Short-term T-Bills	351.9	40.0	110.0	37.6	-0.1	0.3	167.1	60.1	0.4
Long-term government bonds	256.8	137.5	380.6	1,049.4	619.1	706.7	781.9	434.9	462.6
Amortization	595.8	519.3	329.5	263.7	643.5	611.0	835.5	842.0	599.8
Short-term T-Bills	367.9	181.6	100.0	0.0	0.0	0.0	167.0	60.0	0.0
Long-term government bonds	228.2	338.0	229.5	263.7	643.5	611.0	668.5	782.0	600.8
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous	-104.8	-132.3	-124.8	-119.9	-160.3	-330.8	-60.8	-160.9	-61.1
Foreign liabilities	-393.2	207.5	-102.6	-141.6	-60.9	8.8	-770.3	28.4	-7.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Debt securities	-25.4	315.9	-12.6	0.0	0.0	0.0	-328.6	0.0	1.0
Loans	-367.8	-108.5	-90.0	-141.6	-60.9	8.8	-441.7	28.4	-8.1
Drawings	514.9	751.0	608.0	517.4	593.4	648.1	696.7	729.6	768.5
Amortization	882.8	859.4	698.0	659.0	654.3	639.3	1,138.4	701.3	776.6
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**810.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.0	810.8	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	642.8	0.0	0.0	0.0	0.0	0.0
WB	0.0	0.0	0.0	35.1	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	133.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-200.1**	**-454.3**	**-25.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Indirect revenues	5,710.8	6,232.1	6,716.3	6,317.9	6,658.3	6,934.1	7,239.7	7,549.0	7,897.4
Net lending excluding externally-financed operations	1,037.4	919.2	1,158.1	-1,018.3	765.0	801.3	934.2	1,002.5	983.4

Sources: BiH authorities; and IMF staff estimates and projections.

Table 4c. Bosnia and Herzegovina: Government Statement of Operations, 2019–20

(In percent of GDP)

	Federation		Republika Srpska		Bosnia and Herzegovina	Federation		Republika Srpska		Bosnia and Herzegovina
	Central	General	Central	General		Central	General	Central	General	
	2019	2019	2019	2019	2019	2020	2020	2020	2020	2020
Revenue	**8.5**	**40.0**	**26.8**	**41.5**	**43.1**	**16.8**	**37.5**	**24.6**	**38.5**	**40.8**
Taxes	7.5	20.1	16.4	22.8	23.4	7.5	19.1	15.7	21.4	22.6
Direct taxes	0.5	3.8	3.5	4.1	3.9	0.4	3.0	2.9	3.6	3.2
Indirect taxes	7.0	16.3	12.8	18.3	19.4	7.1	16.1	12.6	17.5	19.2
Social security contributions	0.0	16.2	8.0	14.5	15.4	8.2	14.7	7.0	13.5	14.1
Grants	0.4	0.5	0.7	0.8	0.6	0.5	0.5	0.2	0.2	0.4
Other revenue	0.7	3.2	1.6	3.4	3.7	0.7	3.1	1.6	3.4	3.6
Expenditure	**8.3**	**37.7**	**26.9**	**40.4**	**40.8**	**24.2**	**41.5**	**31.6**	**44.5**	**45.2**
Expense	**6.8**	**33.6**	**25.2**	**35.9**	**36.6**	**22.7**	**38.2**	**30.7**	**42.4**	**42.0**
Compensation of employees	6.4	8.6	6.8	9.0	10.7	20.5	8.5	7.8	10.0	11.2
Use of goods and services	0.3	8.4	1.4	3.3	7.3	1.0	9.3	2.0	4.0	8.2
Social benefits	2.1	13.2	12.3	19.1	14.9	13.2	16.7	13.1	22.9	18.4
Interest	0.4	0.5	1.0	1.2	0.7	0.6	0.7	1.0	1.2	0.9
Subsidies	0.6	1.3	1.0	1.4	1.4	0.6	1.3	1.2	1.5	1.4
Other expense	0.7	1.6	1.1	1.8	1.7	2.5	1.6	1.1	1.8	1.7
Net acquisition of nonfinancial assets	**1.5**	**4.0**	**1.7**	**4.6**	**4.2**	**1.4**	**3.4**	**1.0**	**2.2**	**3.2**
Acquisition of nonfinancial assets	1.5	4.1	1.7	4.7	4.3	1.4	3.4	1.0	2.3	3.2
Foreign financed capital spending	1.2	1.8	0.3	1.4	1.6	1.3	2.1	0.4	1.0	1.7
Domestically financed capital spending	0.3	2.3	1.4	3.3	2.7	0.2	1.3	0.6	1.3	1.5
Disposal of nonfinancial assets	0.0	0.1	0.1	0.2	0.1	0.0	0.1	0.1	0.2	0.1
Gross / Net Operating Balance (revenue minus expense)	**1.7**	**6.3**	**1.6**	**5.6**	**6.4**	**-5.9**	**-0.7**	**-6.0**	**-3.8**	**-1.3**
Net lending/borrowing (revenue minus expenditure)	**0.2**	**2.3**	**-0.1**	**1.0**	**2.2**	**-7.3**	**-4.0**	**-7.0**	**-6.0**	**-4.4**
Net acquisition of financial assets	**-0.7**	**0.6**	**1.2**	**1.7**	**1.0**	**-1.3**	**-0.8**	**-1.5**	**-0.6**	**-0.7**
Domestic assets	-0.7	0.6	1.2	1.7	1.0	-1.3	-0.8	-1.5	-0.6	-0.7
Currency and deposits	-0.1	0.6	0.2	1.3	0.8	-1.3	-0.8	-2.0	-1.0	-0.8
Loans	-0.6	0.0	0.8	0.2	0.0	0.0	0.0	0.4	0.1	0.0
Net incurrence of liabilities	**-0.9**	**-1.7**	**1.3**	**0.6**	**-1.0**	**3.8**	**0.9**	**2.4**	**2.3**	**1.2**
Domestic liabilities	0.2	-1.2	1.0	0.3	-0.7	5.1	1.4	2.8	2.6	1.6
Debt securities	0.0	0.0	1.4	1.4	0.5	2.6	2.6	2.6	2.6	2.5
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous	-0.3	-0.3	-0.5	-0.5	-0.4	-0.3	-0.3	-0.6	-0.6	-0.4
Loans	0.0	0.0	0.3	0.1	0.0	0.0	0.1	0.4	0.2	0.0
Foreign liabilities	-1.1	-0.6	0.2	0.3	-0.3	-1.3	-0.5	-0.5	-0.3	-0.4
Loans	-1.1	-0.6	0.4	0.4	-0.3	-1.3	-0.5	-0.5	-0.3	-0.4
Drawings	0.8	1.4	2.3	2.7	1.8	0.8	1.6	1.5	1.6	1.6
Amortization	1.9	1.9	2.0	2.3	2.0	2.1	2.1	1.9	1.9	2.0
Memorandum items										
Net lending excluding externally-financed operations	1.0	3.7	-0.5	2.5	3.3	-6.6	-2.4	-6.8	-4.9	-3.1
Primary balance (% of GDP)	0.6	2.8	0.9	2.3	0.6	-6.7	-3.3	-6.1	-4.8	-2.7

Sources: BiH authorities; and IMF staff estimates and projections.

Note: Federation central government includes pension fund in 2020.

Table 5. Bosnia and Herzegovina: Monetary Survey, 2017–20

	2017 Dec	2018 Dec	2019 Dec	2020 Proj.
	(Million KM, end of period)			
Net foreign assets	10,782	12,464	13,940	13,917
Foreign assets	13,371	15,504	17,059	17,036
Foreign liabilities	2,589	3,040	3,119	3,119
Net domestic assets	11,421	11,626	11,802	12,115
Domestic credit	17,909	18,570	19,604	19,328
Claims on general government (net)	363	35	-176	590
Claims on nongovernment	17,547	18,535	19,780	18,738
Other items (net)	-6,489	-6,944	-7,802	-7,213
Broad money (M2)	22,319	24,323	25,752	26,143
Narrow money (M1)	10,775	12,277	12,507	13,111
Currency	3,851	4,236	5,200	5,350
Demand deposits	6,924	8,041	7,307	7,761
Quasi-money	11,544	12,046	13,245	13,032
Time and savings deposits	4,092	4,302	4,607	4,906
Foreign currency deposits	7,452	7,744	8,639	8,126
	(Annual percent change)			
Net foreign assets	5.2	7.5	6.1	-0.1
Net domestic assets	4.7	0.9	0.7	1.2
Domestic credit	4.7	3.0	4.2	-1.1
Claims on general government (net)	-1.3	-1.5	-0.9	3.0
Claims on nongovernment	6.0	4.4	5.1	-4.0
Other items (net)	0.0	-2.0	-3.5	2.3
Memorandum items:				
	(Annual percent change)			
Broad money (M2)	10.5	9.0	5.9	1.5
Reserve money (RM)	12.4	10.3	6.9	-0.8
Credit to the private sector	7.3	5.6	6.4	-5.3
	(Percent)			
Credit to the private sector (in percent of GDP)	54.6	55.5	55.6	55.6
Broad money (in percent of GDP)	71.1	72.8	74.3	79.6
Central bank net foreign assets (in percent of monetary base)	112.2	112.0	113.5	112.7
	(Ratio)			
Velocity (GDP/end-of-period M2)	1.4	1.4	1.3	1.3
Reserve money multiplier (M2/RM)	2.4	2.3	2.3	2.4

Source: CBBH and IMF staff estimates and projections.

Table 6. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2019–29

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.		Est.	Proj.									
Fund repurchases and charges													
In millions of SDRs	163.6	150.3	52.6	4.1	14.7	19.9	91.1	156.1	88.3	21.5	10.8	5.4	0.1
In millions of euros	200.8	180.1	64.9	5.1	18.1	24.5	112.2	192.2	108.9	26.5	13.3	6.6	0.1
In percent of exports of goods and NFS	3.1	2.5	0.9	0.1	0.3	0.3	1.5	2.6	1.5	0.4	0.2	0.1	0.0
In percent of external public debt service	39.5	36.4	15.0	1.1	4.1	5.4	24.8	42.4	24.1	5.9	2.9	1.5	0.0
In percent of general government revenues	2.9	2.5	0.9	0.1	0.3	0.3	1.4	2.2	1.2	0.3	0.1	0.1	0.0
In percent of gross official reserves	3.7	3.0	1.0	0.1	0.3	0.4	1.7	2.8	1.5	0.4	0.2	0.1	0.0
Fund credit outstanding													
In millions of SDRs	254.7	174.4	126.8	392.0	381.5	365.6	278.2	124.4	37.0	15.9	5.3	0.0	0.0
In millions of euros	312.7	208.9	156.5	485.8	470.0	449.9	342.4	153.2	45.6	19.6	6.5	0.0	0.0
In percent of quota	96.0	65.8	47.8	147.8	143.8	137.9	104.9	46.9	13.9	6.0	2.0	0.0	0.0
In percent of GDP	2.0	1.2	0.9	2.9	2.7	2.5	1.8	0.8	0.2	0.1	0.0	0.0	0.0
In percent of gross official reserves	5.8	3.5	2.4	7.6	7.5	7.1	5.3	2.3	0.6	0.3	0.1	0.0	0.0
Memorandum items:													
Exports of goods and services (millions of euros)	6,550	7,203	7,215	7,227	7,239	7,251	7,263	7,275	7,287	7,299	7,311	7,323	7,335
External public debt service (millions of euros)	508	494	432	463	448	455	451	453	452	453	453	453	453
Quota (millions of SDRs)	265	265	265	265	265	265	265	265	265	265	265	266	267
Quota (millions of euros)	326	318	327	329	327	326	326	327	327	327	327	328	330
Gross official reserves (millions of euros)	5,411	5,956	6,455	6,353	6,294	6,376	6,504	6,805	7,114	7,438	7,776	8,130	8,500
GDP (millions of euros)	16,011	17,065	17,733	16,799	17,609	18,345	19,189	20,097	21,112	22,179	23,299	24,476	25,713
Euros per SDR	1.23	1.20	1.23	1.24	1.23	1.23	1.23	1.23	1.23	1.23	1.23	1.23	1.23

Source: Fund staff estimates.

Table 7a. Bosnia and Herzegovina: Gross Financing Requirements, 2019–23
(In millions of Euros)

	2019	2020	2021	2022	2023
Financing requirements	1,490	2,139	1,857	1,845	2,141
Current account deficit	632	1,256	977	970	1,000
Amortization	858	882	880	876	1,141
Government	345	343	337	329	590
Other	512	540	543	547	551
Financing	1,490	1,229	1,587	1,625	1,921
Capital transfers	162	164	166	169	171
FDI	480	296	339	386	428
Net bank financing	-210	-392	-228	-109	134
Foreign loans	1,315	978	1,115	1,176	1,236
Government 1/	303	301	358	387	418
Other	1,012	676	757	789	817
Gross international reserves (- = increase)	-573	102	58	-82	-128
Other 2/	315	81	137	86	80
Financing gap	0	910	270	220	220
IMF	0	329	0	0	0
WB	0	18	0	0	0
EU	0	68	0	0	0
Unidentified financing	0	495	270	220	220

Source: IMF staff projections and calculations.

1/ It includes actual disbursements under the Fund arrangements.

2/ It includes net errors and omissions, net portfolio flows and asset transations of general government and non-bank private sector.

Table 7b. Bosnia and Herzegovina: Gross Financing Requirements, 2019–23
(In percent of GDP)

	2019	2020	2021	2022	2023
Financing requirements	8.4	12.7	10.5	10.1	11.2
Current account deficit	3.6	7.5	5.5	5.3	5.2
Amortization	4.8	5.3	5.0	4.8	5.9
Government	1.9	2.0	1.9	1.8	3.1
Other	2.9	3.2	3.1	3.0	2.9
Financing	8.4	7.3	9.0	8.9	10.0
Capital transfers	0.9	1.0	0.9	0.9	0.9
FDI	2.7	1.8	1.9	2.1	2.2
Net bank financing	-1.2	-2.3	-1.3	-0.6	0.7
Foreign loans	7.4	5.8	6.3	6.4	6.4
Government 1/	1.7	1.8	2.0	2.1	2.2
Other	5.7	4.0	4.3	4.3	4.3
Gross international reserves (- = increase)	-3.2	0.6	0.3	-0.4	-0.7
Other 2/	1.8	0.5	0.8	0.5	0.4
Financing gap	0.0	5.4	1.5	1.2	1.1
IMF	0.0	2.0	0.0	0.0	0.0
WB	0.0	0.1	0.0	0.0	0.0
EU	0.0	0.4	0.0	0.0	0.0
Unidentified financing	0.0	2.9	1.5	1.2	1.1

Source: IMF staff projections and calculations.

1/ It includes actual disbursements under the Fund arrangements.

2/ It includes net errors and omissions, net portfolio flows and asset transations of general government and non-bank private sector.

Annex I. Public Debt Sustainability Analysis

Bosnia and Herzegovina's public debt remains low and sustainable based on an updated DSA even after the impact of the crisis. Alternative scenarios suggest that debt is sustainable under most adverse scenarios, except for a scenario based on a constant primary deficit at 2020 levels.

1. **The assumptions are in line with the macroeconomic framework baseline.** The budgetary position is expected to be in deficit in 2020 and to return to a surplus over 2021–25. A gradual increase in the average maturity of outstanding domestic debt is assumed. IFI financing reflects the favorable long-term financial terms currently provided by the EBRD, EIB, IMF and WB.

2. **Debt dynamics improve over the medium term**. Public debt is estimated to temporarily increase to 38 percent by end-2020, reflecting a sharp recession and large increase in public health-related spending. Over the medium-term, the public debt is expected to return to a declining path and reach 26 percent by end-2025. IFIs and bilateral officials will continue to provide external financing through project-related loans. Domestic debt is expected to be financed by banks, with longer average maturity if modernized debt strategies are adopted and implemented.

3. **Baseline and alternative scenarios**

- **The coverage of public debt is general government debt.** In the baseline scenario, the government is projected to assume some health sector debts in the context of the COVID crisis. In a downside scenario, possible additional contingent liabilities include the following: court judgments (1½ percent of GDP) and public enterprise debt (very tentatively estimated around 10 percent of GDP net exposure). In a severe and protracted shock, additional contingent risks could arise from the financial sector.

- **Baseline projections are consistent with the recent developments, but subject to significant uncertainty**. Despite the projected growth decline in 2020, a rapid recovery is expected in 2021. The budgetary primary surplus will follow a similar path. The projections include the payments for health arrears and bank debt, and settlements of intergovernmental arrears. These policies will lead to a gradual decline of the debt-to-GDP ratio until reaching about 26 percent of GDP by end-2025. Of course, a more protracted-than-expected slowdown of the EU and/or BiH economies would lead to a much lower GDP growth and primary surplus.

- **Under the historical scenario, the debt-to-GDP ratio would stay unchanged.** The paths of public debt and gross financing needs would deviate from the baseline, largely due to small primary deficits instead of surpluses under the baseline. The debt ratio would remain close to but below the end-2020 level of 38 percent for the projection period.

- **The constant primary surplus scenario seems unrealistic, assuming the COVID-19 shock is temporary.** With a constant primary deficit at 2020 levels (3.6 percent of GDP) throughout the projection period, the debt-to-GDP ratio is expected to increase steadily to about 50 percent in 2025. Such large primary deficits in the coming years seem unrealistic but also unsustainable. The gross financing needs would follow a similar increasing trend. Available resources would be limited due to the small investor basis, largely banks, and underdeveloped secondary bond market.

- **The real exchange rate shock has limited impact.** The debt-to-GDP ratio is projected to decline, even though at a slower pace than in the baseline scenario.

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Source: IMF staff.
1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.
2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

Table 1. Bosnia and Herzegovina: Public Sector Debt Sustainability Analysis (DSA)

(In percent of GDP unless otherwise indicated)

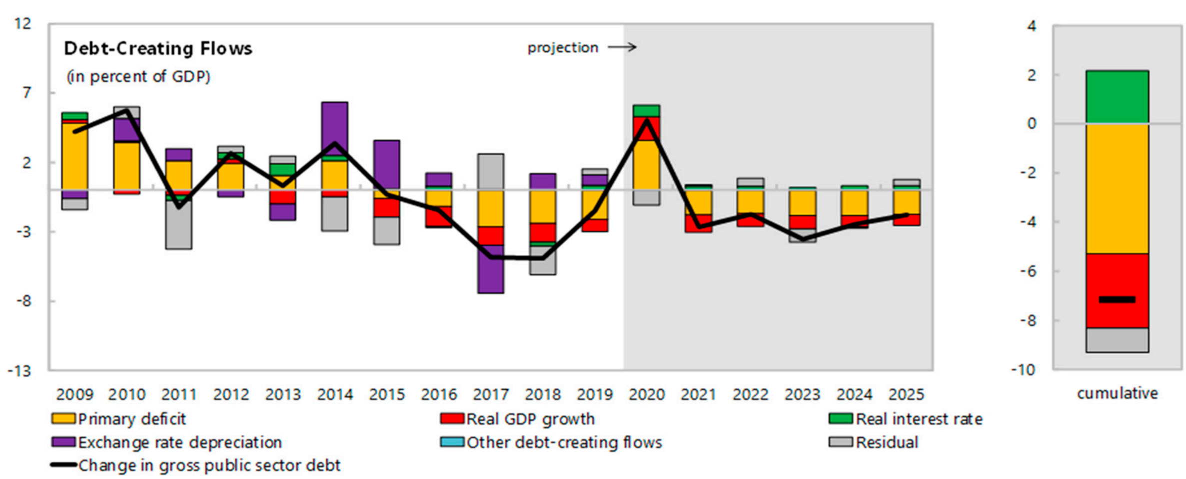
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	42.7	34.3	32.8	37.9	35.2	33.5	29.9	27.5	25.7
Public gross financing needs	4.2	2.7	1.2	7.5	3.6	4.4	6.4	5.7	6.0
Real GDP growth (in percent)	1.9	3.6	2.7	-5.0	3.5	2.8	2.9	2.9	3.0
Inflation (GDP deflator, in percent)	1.2	2.8	1.1	-0.3	1.3	1.3	1.7	1.8	2.0
Nominal GDP growth (in percent)	3.1	6.5	3.8	-5.3	4.8	4.2	4.6	4.7	5.1
Effective interest rate (in percent) [4/]	1.8	2.0	2.2	2.1	2.1	2.2	2.3	2.9	3.3

As of December 31, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		0
5Y CDS (bp)		0
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.2	-4.9	-1.5	5.0	-2.7	-1.8	-3.6	-2.4	-1.8	-7.1	
Identified debt-creating flows	0.4	-2.9	-1.9	6.1	-2.8	-2.4	-2.6	-2.3	-2.2	-6.2	
Primary deficit	0.4	-2.4	-2.1	3.6	-1.8	-1.7	-1.8	-1.8	-1.8	-5.3	-0.5
Primary (noninterest) revenue and grant	43.3	43.0	43.1	40.8	43.0	43.0	43.1	43.0	43.0	255.9	
Primary (noninterest) expenditure	43.7	40.6	41.0	44.3	41.3	41.3	41.3	41.2	41.2	250.6	
Automatic debt dynamics [5/]	0.0	-0.5	0.2	2.6	-1.0	-0.7	-0.7	-0.5	-0.5	-0.9	
Interest rate/growth differential [6/]	-0.5	-1.6	-0.5	2.6	-1.0	-0.7	-0.7	-0.5	-0.5	-0.9	
Of which: real interest rate	0.3	-0.3	0.4	0.8	0.3	0.3	0.2	0.3	0.3	2.2	
Of which: real GDP growth	-0.8	-1.3	-0.9	1.7	-1.3	-0.9	-0.9	-0.8	-0.8	-3.0	
Exchange rate depreciation [7/]	0.6	1.2	0.7	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
General Govt - Financing - Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.6	-2.0	0.4	-1.1	0.1	0.6	-1.0	-0.1	0.4	-1.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

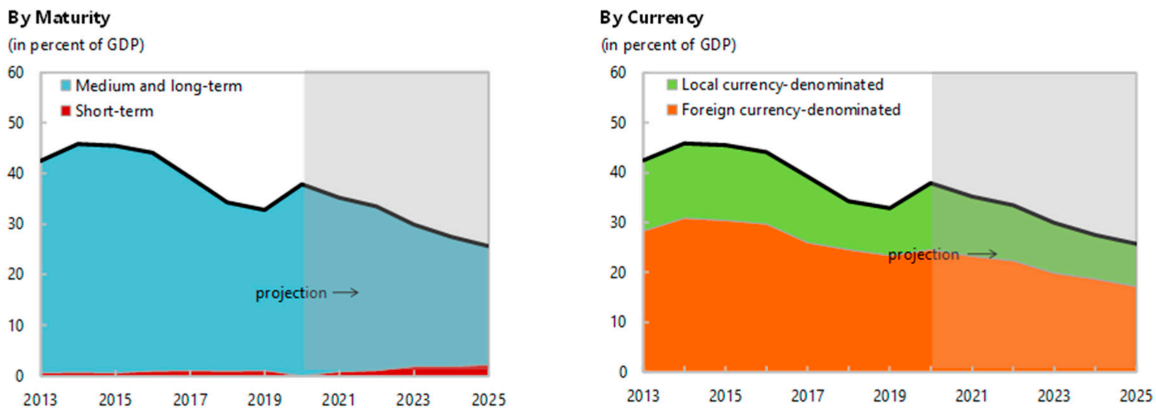
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

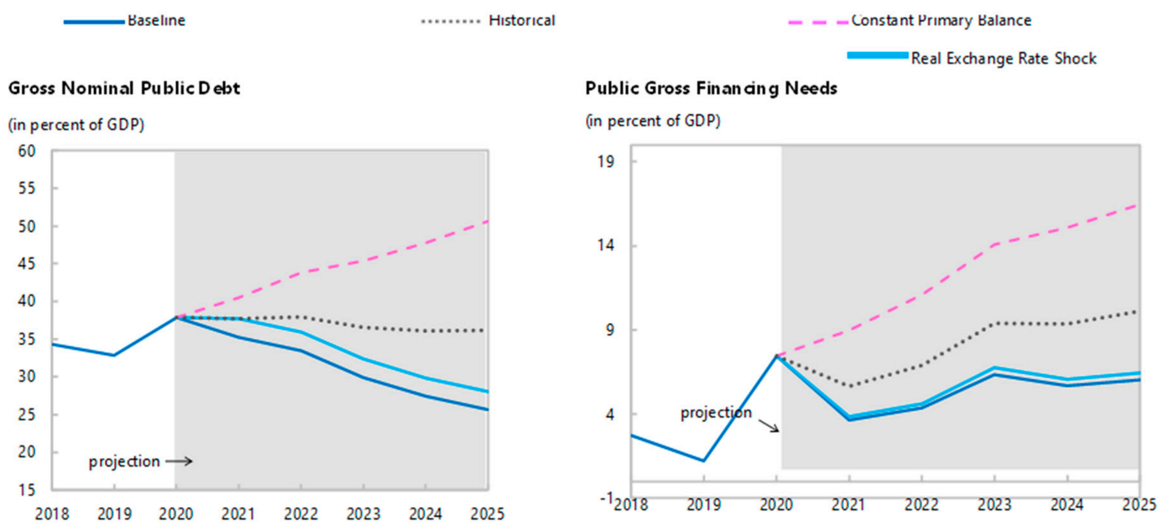
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 2. Bosnia and Herzegovina: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	3.5	2.8	2.9	2.9	3.0
Inflation	-0.3	1.3	1.3	1.7	1.8	2.0
Primary Balance	-3.6	1.8	1.7	1.8	1.8	1.8
Effective interest rate	2.1	2.1	2.2	2.3	2.9	3.3
Constant Primary Balance Scenario						
Real GDP growth	-5.0	3.5	2.8	2.9	2.9	3.0
Inflation	-0.3	1.3	1.3	1.7	1.8	2.0
Primary Balance	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	2.1	2.1	2.1	2.1	2.4	2.5

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	2.0	2.0	2.0	2.0	2.0
Inflation	-0.3	1.3	1.3	1.7	1.8	2.0
Primary Balance	-3.6	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	2.1	2.1	2.0	2.0	2.4	2.6
Real Exchange Rate Shock						
Real GDP growth	-5.0	3.5	2.8	2.9	2.9	3.0
Inflation	-0.3	5.8	1.3	1.7	1.8	2.0
Primary Balance	-3.6	1.8	1.7	1.8	1.8	1.8
Effective interest rate	2.1	2.3	2.2	2.3	2.9	3.3

Source: IMF staff.

Appendix I. Letter of Intent

Sarajevo and Banja Luka
April 11, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington DC 20431

Dear Ms. Georgieva,

1. This letter requests assistance from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR 265.2 million (100 percent of quota) to address our urgent balance-of-payment and fiscal needs as we combat the COVID-19 outbreak. The funds will be used to ramp up health spending and finance economic stabilization measures. In addition, we expect the RFI to catalyze donor support and strengthen confidence in the currency board.

2. The COVID-19 pandemic poses the most serious threat to Bosnia and Herzegovina's economy since the global financial crisis. Although the outbreak came later to BiH than to many other European countries, it is nevertheless poised to have dire consequences for our economy and our citizens. In response, we have declared a state of emergency throughout the country, closed schools and universities, shuttered restaurants and shops, suspended public transportation, banned public gatherings, and imposed severe restrictions on the movement of people.

3. These measures, while necessary to control the outbreak, will take a heavy toll on economic activity. We expect real GDP to contract by 5 percent this year as demand collapses and supply chains are disrupted. Our current account deficit is projected to widen to 7½ percent of GDP, as weakness in Europe—our largest export market—negatively impacts our exporters. We anticipate that remittances could decline by over 10 percent. Tourism has already vanished, with hotels currently operating at 10 percent capacity and some 850,000 trips recently canceled. Assuming we manage to contain the outbreak, the economy should begin to recover in the third quarter. Nevertheless, we project an external financing gap of some €910 million in 2020, to be filled to a large extent by the IMF, and by the European Union, the World Bank, and EBRD to whom we are reaching out and who have already indicated a willingness to provide support. Nevertheless, we expect to draw down our international reserves by around €100 million.

4. Our health care sector is ill-equipped to deal with the outbreak. The healthcare system in BiH is characterized by weak outcomes and inefficient spending. Most hospitals are loss-making, and arrears are significant. The system has been further weakened by a steady exodus of BiH-trained doctors and nurses to other countries—particularly more experienced practitioners. In this context, a surge in hospitalizations would quickly overwhelm our already limited capacity. Our immediate priority is to increase our ability to test for the coronavirus and to secure more respirators, mobile x-ray machines, and protective equipment for our healthcare providers.

5. Our fiscal position has improved considerably under the current Extended Fund Facility (EFF), giving us some fiscal space to address the economic and human costs of the pandemic. Fiscal surpluses averaged close to 2 percent of GDP in the last two years, reflecting mainly underspending on public investment but also restrained current spending. We expect the fiscal position to swing from a surplus of 2 percent of GDP to a deficit of about 4½ percent on account of much higher health spending, appropriate social and economic support, and lower revenues, but our debt will remain sustainable. We plan to expand our existing social safety net to provide help to individuals including by extending unemployment benefits. We will also consider support measures to the businesses most affected by the crisis. Part of our increased financing needs can be sourced domestically given large public sector deposits and excess banking sector liquidity, but international assistance could make a marked difference. We plan to pass revised budgets integrating the new priorities soon. Given the large uncertainties surrounding the future, we are also preparing contingency plans if the crisis should get worse than currently expected. Once the COVID-19 effects subside, we will renew our commitment to fiscal prudence and expect debt to decline over the medium term.

6. Thanks to improvements in banking sector regulation and supervision, our banks today are in a relatively strong position to confront the crisis. Nevertheless, a protracted period of weak demand could cause businesses to experience liquidity shortages and lead to a surge in loan defaults. A six-month moratorium on loan repayments has been introduced, and we are considering other measures to provide relief for stressed but ultimately solvent borrowers. Our banking agencies have instructed banks not to pay dividends or bonuses and to use their liquidity and capital buffers.

7. We will avoid introducing exchange or trade restrictions, or any other measures that would exacerbate the balance-of-payments difficulties we currently face. We will not allow the CBBH's international reserves to be used for fiscal purposes, as this would undermine the currency board and threaten financial stability. To enhance the framework for bank resolution, we will seek adoption of the new Deposit Insurance (DI) law. To further protect bank depositors, we will move to conclude a credit line with the EBRD that will backstop the DI system. We will also prioritize adopting the 2020 budget for the Institutions of BiH. At the Federation level, we will seek passage of a revised personal income tax and social security tax laws as soon as feasible.

8. In line with IMF safeguards policy, we commit to undergo a safeguards assessment prior to approval of any subsequent IMF arrangement. The proceeds from the RFI purchase will be on-lent to entity governments as in the past and shared between the Federation of BiH with its 10 cantons (62 percent) and Republika Srpska (38 percent). Each entity will distribute 0.5 percent of its share to Brcko District. We will therefore update the Memorandum of Understanding between the Ministries of Finance and the Central Bank on the responsibility for servicing obligations to the IMF that was signed on June 30, 2016, under the EFF arrangement. The implementation of the 2017 safeguards assessment recommendations has been successfully completed, and the CBBH continues to publish its audited financial statements. As in the past, we will authorize the CBBH's external auditors to hold discussions with IMF staff.

9. Looking beyond the current crisis, we aim to intensify our engagement with the IMF, with the objective of reaching agreement on a new multi-year arrangement to address our medium-term challenges. We remain committed to the main policy objectives agreed to under the EFF, which will expire in September 2020. A key priority under a new arrangement is to reform the public enterprise sector, including by increasing transparency, strengthening oversight and governance, and identifying fiscal risks. Another priority is to overhaul the health sector—an effort that will likely involve introducing tighter controls on spending and creating incentives for consolidation.

10. We will provide IMF staff with data and information as may be deemed necessary. We authorize the IMF to publish this Letter of Intent and the staff report for the request for purchase under the RFI.

/s/
Zoran Tegeltija
Chairman
of the Council of Ministers
Bosnia and Herzegovina

/s/
Fadil Novalić
Prime Minister
Federation of Bosnia
and Herzegovina

/s/
Radovan Višković
Prime Minister
Republika Srpska

/s/
Vjekoslav Bevanda
Minister of Finance
and Treasury of
Bosnia and Herzegovina

/s/
Jelka Milićević
Minister of Finance
Federation of Bosnia
and Herzegovina

/s/
Zora Vidović
Minister of Finance
Republika Srpska

/s/
Senad Softić
Governor

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—INFORMATIONAL ANNEX

April 13, 2020

Prepared By	The European Department

CONTENTS

FUND RELATIONS

(As of March 31, 2020)

Membership Status: Joined December 14, 1992; Article XIV

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	265.2	100.00
Fund holdings of currency	391.96	147.80
Reserve Tranche Position	0.09	0.03

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	160.89	100.00
Holdings	1.22	0.76

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Extended Arrangements	126.83	47.82

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Sep 07, 2016	Sep 06, 2020	443.04	126.83
Stand-By	Sep 26, 2012	Jun 30, 2015	558.03	422.75
Stand-By	Jul 08, 2009	Jul 07, 2012	1,014.60	338.20

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal		10.57	15.85	21.14	21.14
Charges/Interest	1.26	1.37	1.25	1.04	0.82
Total	1.26	11.94	17.10	22.18	21.96

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessment

The authorities have committed to undergoing an update assessment in the context of the RFI arrangement, which would need to be completed before Executive Board approval of any successor arrangement. The 2017 safeguards assessment found that the CBBH legal framework safeguards the bank's autonomy. The assessment's recommendations have been successfully completed, including the establishment of a risk management function at the CBBH. The central bank continues to publish its audited financial statements, as required by the safeguards policy.

Exchange Rate Arrangements

Bosnia and Herzegovina's exchange rate arrangement is a currency board. The currency of Bosnia and Herzegovina is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the Parliament of Bosnia and Herzegovina approved an amendment to the CBBH law that changes the peg of the KM from the Deutsch Mark to the Euro under a currency board arrangement. The KM is pegged to the euro at KM 1 = 0.5113 euro. Bosnia and Herzegovina (BiH) has not accepted the obligations under Article VIII Sections 2, 3, and 4 and therefore avails itself of the transitional arrangements under Article XIV. BiH no longer maintains restrictions under the transitional provisions of Article XIV. It maintains restrictions on the transferability of balances and interest accrued on frozen foreign-currency deposits, subject to Fund jurisdiction under Article VIII. An Article VIII mission by LEG and MCM took place in October 2012 to address pending Article VIII issues.

FSAP and ROSC Assessment

An FSAP mission took place in November 2014; and the Executive Board discussed the Financial System Stability Assessment in June 2015 (IMF Country Report No. 15/164). The authorities approved publishing the FSSA and all technical notes. A data ROSC mission was held in November 2007 and the ROSC Data Module was published in February 2008 (IMF Country Report No. 08/43).

Last Article IV Consultation

The last Article IV consultation was concluded on February 9, 2018 (IMF Country Report No. 18/39).

Resident Representative

The IMF has had a resident representative office in Bosnia and Herzegovina since 1996. Mr. Andrew Jewell assumed his position as a resident representative in August 2019.

Technical Assistance 2017–2019

Department	Timing	Purpose
FAD	Feb 14–27, 2017	ITA-IT Modernization and Risk Analysis
	March 27–April 5, 2017	Revenue Administration of Taxpayer Reporting on Final Consumption
	April 17–28, 2017	ITA-Improving Audit Efficiency
	May 3–15, 2017	ITA-IT Modernization and E-filing
	Aug 22–Sept 4, 2017	ITA-IT Modernization
	Sept 13–26, 2017	RSTA-Implementing Indirect Audit Methods
	Jan 23–Feb 5, 2018	ITA Strengthening Capacity in Customs Risk Management
	Feb 5–18, 2018	RSTA-Enhancing Compliance Risk Management Capacity
	Feb 13–27, 2018	BiH, FBiH PIMA
	March 13–26, 2018	ITA TADAT
	March 15–28, 2018	FBiH-Management of Arrears
	April 16–23, 2018	ITA Developing Compliance Risk Management Capacity
	June 4–18, 2018	FTA Developing Compliance Risk Management Capacity
	Sept 4–17, 2018	ITA Implementing Compliance Risk Management Strategy
	Sept 24–Oct 5, 2018	RSTA-Revenue Administration
	Oct 6–29, 2018	ITA-Revenue Administration
	Dec 4–17, 2018	Brcko District Modernizing Tax Administration
	Feb 5–18, 2019	RSTA Enhancing Compliance Risk Management Capacity
	April 15–25, 2019	RS Developing PFM Strategy
	June 5–12, 2019	FBIH Scoping Mission on Assessing the New Veterans' Law and Other Social Assistance Programs
	June 24–July 5, 2019	FBiHTA Improving Audit Efficiency—Audit Manual
	June 25–July 9, 2019	Brcko District TA IT Modernization
	Sept 10–23, 2019	RS TADAT
	Oct 15–28, 2019	ITA Reforming Human Resource Management and Customs Administration
	Nov 25–Dec 6, 2019	ITA Improving Audit Efficiency-Audit Manual
	Nov 26–Dec 9, 2019	RSTA Enhancing Arrears Management Capacity
	Dec 4–16, 2019	FBiH Strengthening Oversight of PE in FBiH

MCM	Sept 25–Oct 3, 2017 Oct 8–12, 2018 Jan 16–25, 2019 March 25–April 5, 2019 June 17–28, 2019 November 4–15, 2019 November 18–26, 2019	Crisis Prevention and Systemic Risk Oversight Strengthening Banking Supervision Implementing of New Reserve Requirement Framework Strengthening Banking Supervision Strengthening Banking Supervision RS Debt Management FBiH Cash Management
STA	Feb 27–March 1, 2017 April 24–28, 2017 April 24–May 4, 2018 Sept 28–Oct 3, 2017 Nov 27–Dec 1, 2017 Feb 12–16, 2018 Oct 1–5, 2018 Oct 8–19, 2018 Jan 14–18, 2019 Feb 12–18, 2019 Feb 18–22, 2019 April 9–11, 2019 Dec 9–13, 2019	GFS GFS e-GDDS Scoping GFS TA Mission GFS GFS GFS Monetary and Finance Statistics GFS GFS GFS GFS Workshops in FBiH BoP

IMF-WORLD BANK COLLABORATION

The Bank and the Fund country teams in Bosnia and Herzegovina maintain close collaboration, coordinate the two institutions' activities and plans, and harmonize policy recommendations.

Key Areas of World Bank Involvement

World Bank's Country Partnership Framework (CPF) for Bosnia and Herzegovina (BiH) for the period 2016–2020 was approved in December 2015 in support of reforms in three areas: (1) increasing public sector efficiency and effectiveness; (2) creating conditions for accelerated private sector growth; and (3) building resilience to natural shocks. The CPF included a crosscutting theme of inclusion that informs the choice and design of specific interventions under the strategy, to ensure that reforms are socially sustainable, and that vulnerable groups are not left behind as new opportunities open. The CPF was prepared on the basis of extensive consultations with a range of stakeholders at all levels of government and in civil society, academia, private sector and international community. It reflects a consensus of stakeholders on the reform process and a shared understanding of development priorities and challenges facing the country. The new CPF for FY21–25 is under preparation, with the Systematic Country Diagnostic Update serving as a starting point in identifying priorities for the new program. The preparation will also imply active engagement with authorities in BiH in order to ensure that the resulting World Bank program reflects fully the development priorities for the country.

The current portfolio of Bank-supported operations in BiH consists of 7 projects totaling $383.77 million. Areas of support include energy efficiency, employment support, environment, road infrastructure modernization, real estate registration and banking sector strengthening, railways restructuring in RS.

Under the CPF, the Bank supported public finances reform through a Development Policy Loan (DPL). The operation supported the policy and institutional efforts of BiH authorities to (1) strengthen the medium-term management of public assets and liabilities for improved transparency of public finances; and (2) enhance regulatory frameworks to lower medium-term fiscal pressures related to public employment, insolvency, and pharmaceuticals.

Bosnia and Herzegovina Bank Active Portfolio as of March 16, 2020			
Project name	Effective	Closing	Original Commitment (US $m)
Banking Sector Strengthening Project	10/25/2018	12/31/2020	60.00
BiH Employment Support Program	01/26/2018	10/01/2021	55.80
Federation Road Sector Modernization	10/04/2017	12/31/2021	64.60
Real Estate Registration[1]	09/23/2013	07/31/2022	56.50
Drina Flood Protection	05/21/2015	12/31/2020	24.00
Energy Efficiency [2]	05/27/2015	02/24/2024	64.00
RS Railways Restructuring Project	08/31/2018	12/31/2022	60.60

[1] Includes Additional Financing approved on March 5, 2020.

[2] Includes Additional Financing approved on October 30, 2018.

In addition to the ongoing program, the following operations are currently under preparation:

Projects under preparation	Indicative project amount (US $m)	CPF Objective
BiH Business Environment Strengthening	60.00	Improve business environment
Water Supply and Sanitation Modernization	75.00	Improve public service delivery
RS Road Rehabilitation	56.14	Upgrade economic infrastructure
Health sector reform	TBC	Improve public service delivery

Bosnia and Herzegovina became a shareholder and member of IFC in 1996. Since then, IFC's long term finance investment in Bosnia and Herzegovina totaled $398.3 million, including $23.1 million mobilized from our partners, in 46 projects across a variety of sectors. In addition, IFC has supported trade flows of $52 million through its trade finance program. As of June 30, 2017, IFC's committed investment portfolio in Bosnia and Herzegovina is $60.70 million. In the current strategy cycle IFC focused on strengthening retail and manufacturing sectors through direct investments, and supporting SMEs, housing development and clean energy through financial institutions. Additionally, IFC's maintained strong focus on improving access to finance by improving country's bankruptcy framework and investing into remaining NPL platforms. Finally, IFC supported better business environment by supporting regulatory simplification at local level, and more specifically facilitating introduction of online business registration and business administration digitalization.

STATISTICAL ISSUES

Bosnia and Herzegovina—Statistical Issues (As of March 31, 2020)
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The accuracy, timeliness, and publication of economic statistics has improved, but weaknesses in national accounts, government finance, and balance of payment statistics need to be addressed.
Real Sector: BiH has made efforts to improve the real sector statistics. The country has benefited from extensive technical support from the IMF and the European Union. With the assistance of the IMF resident real sector statistics advisor, BiH started compiling and publishing quarterly national accounts as of mid-2014. Additional efforts have been invested into closing the gap between the production and expenditure-based GDP estimates and in the improvement of coverage of GDP, mainly with an ongoing review of the calculations of the non-observed economic activities (NOE). Outstanding issues are the need for further improvements to the annual and quarterly compilation of GDP by expenditure and production approach at the country level. **Price Statistics:** A consumer price index (CPI), based on internationally recommended practices, has been implemented. This CPI was released in 2007, and consistent series are available monthly countrywide and for each entity, with the series starting in January 2005. The CPI weights are derived from the household budget survey, conducted since 2004. Also, producer price indices (PPI) are available for both Entities and countrywide. The Industrial Production index at the country level has been made available in 2009 with historical time series going back till 2006. Both the industrial production index and the producer price index are compiled and disseminated at the national and entity level based on harmonized methodology. The annual Labor Force Survey follows international methodological standards and provides data for the country and the entities since 2006.
External Sector: Balance of payments statistics are compiled by the CBBH. Starting from 2012, BOP is compiled in line with sixth edition of the Balance of Payments Manual (BPM6) and is of good quality. Based on this methodology data series are available as of 2007. The compilation of services is significantly improved through the implementation of two IPA EU Projects on ITSS (the third one is under implementation – mostly focusing on compensation of employees, travel debit and informal personal transfers). The compilation of formal remittances relies on ITRS and Money Transfer Organizations (MTO) data while compilation of informal component of remittances relies on estimates supported by Household Budget Survey (HBS) results. Export and import data for the BOP purposes are based on customs declarations procedures compiled by Agency for statistics BH from customs records, but on a special trade basis rather than on a general trade basis.

The CBBH has produced and published a report on the quarterly international investment position for Bosnia and Herzegovina. The published data cover the period from 2007 to the third quarter of 2019.

Government Finance Statistics: The CBBH compiles government finance statistics (GFS) in accordance with the definitions and concepts of the *Government Finance Statistics Manual 2001* and is working on GFS 2014. While the institutional coverage of the GFS is broadly consistent with international guidelines, its scope does not cover all economic stocks (balance sheet data) and flows. To address this issue and with help of the IMF TA, the CBBH has been preparing the balance sheet and debt data for general government. However, the data have not been published yet. In addition, the GFS does not include full transactions related to projects directly financed by international donors, and quarterly statistics exclude all transactions in financial assets and liabilities due to incomplete quarterly source data. Transactions are recorded on a mixed accrual/cash basis.[1] External government debt data are published quarterly; however, work remains to be done on compiling and publishing public sector debt statistics. Authorities have made an effort to improve the quality of the GFS prepared by ministries of finance. More work is required to improve the quality of consolidated general government data.

Monetary and Financial Statistics: The CBBH reports monetary accounts to the Fund on a countrywide and Entity basis. As of 2011, the CBBH reports monetary data to the Fund in the Standardized Report Forms developed by STA that embody the methodology of the *Monetary and Financial Statistics Manual*. The CBBH collects data using the standardized report forms. As of 2002, interest rate statistics compiled and published by the CBBH produces harmonized data on level of the average weighted lending and deposit nominal interest rates of commercial banks in BiH, presented at the annual level. Finally, the CBBH extended the coverage of its financial sector statistics to encompass approximately 105 financial institutions. As of 2019, other Financial Institutions statistics (investment funds, insurance companies, microcredit institutions, leasing companies, brokerage houses, and stock exchanges) has been compiled at quarterly basis.

II. Data Standards and Quality

BiH is subscriber to the Fund's General Data Dissemination Standard (GDDS) since April 2013.

[1] At the State level, some earmarked revenues are not recorded until the corresponding expenditure takes place. In the Federation, expenditures are not entered into the Treasury payment system if there are no available funds to pay them out or if obligations exceed the budgeted amounts.

Table 1. Bosnia and Herzegovina: Table of Common Indicators Required for Surveillance

(As of March 31, 2020)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	3/30/20	3/31/20	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/2020	3/2020	M	M	M		
Reserve/Base Money	2/2020	3/2020	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	2/2020	3/2020	M	M	M		
Central Bank Balance Sheet	2/2020	3/2020	M	M	M		
Consolidated Balance Sheet of the Banking System	2/2020	3/2020	M	M	M		
Interest Rates[2]	2/2020	3/2020	M	M	M		
Consumer Price Index	02/2020	3/2020	M	M	M	LNO, NO, LNO, LO	LNO, LO, LNO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4/2019	3/2020	Q	Q	Q	O, LNO, LO, LO	LNO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	12/2019	3/2020	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2019	2/2020	Q	Q	Q		
External Current Account Balance	12/2019	3/2020	Q	Q	Q	O, O, LO, LO	LNO, O, LO, O, LO
Exports and Imports of Goods and Services	12/2019	3/2020	M	M	M		
GDP/GNP	Q3/2019	01/2020	Q	Q	Q	O, LNO, LO, LO	LNO, LNO, LO, LO, LO
Gross External Debt	Q4/2019	2/2020	Q	Q	Q		
International Investment Position	Q4/2019	03/2020	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. [2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. [3] Foreign, domestic bank, and domestic nonbank financing. [4] The general government consists of entities' general governments (entities' central governments, cantons, municipalities and EBFs), IBIH and BD general government". [5] Including currency and maturity composition. [6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA). [7] Reflects the assessment provided in the data ROSC or the Substantive Update (published on February 2008 and based on the findings of the mission that took place during March 13–28, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA). [8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Anthony De Lannoy, Executive Director for Bosnia and Herzegovina and Tsvetan Manchev, Advisor to the Executive Director
April 20, 2020

We would like to express our gratitude to management and staff for their timely response to Bosnia and Herzegovina's (BiH) request for a disbursement under the Rapid Financing Instrument (RFI). This disbursement will provide initial relief and help the country overcome the exogenous shock caused by COVID-19. The authorities will use the funds to ramp up health spending, finance economic stabilization measures, and catalyze donor support to strengthen confidence in the currency board.

Background

Despite growing external risks and a challenging domestic political environment in the recent years, the BiH authorities have remained committed to their reform agenda under the current EFF-supported program. Although missing some PCs and structural benchmarks, which have delayed the program reviews, sizable efforts have been made to strengthen public finances, increase resilience of the financial regulatory and supervisory framework, enhance the business environment and economic competitiveness. Economic activity has strengthened and returned to economic potential, driven by strong private consumption and exports, which has alleviated pressures from high unemployment and emigration.

The COVID-19 pandemic, however, poses the most serious threat to the economy since the global financial crisis. Although the outbreak peaked later than in many other European countries, it will have dire consequences for its citizens and the number of confirmed COVID-19 cases in BiH has been increasing daily. In response, the authorities have declared a state of emergency throughout the country, closed schools and universities, shut down restaurants and shops, suspended public transportation, banned public gatherings, and imposed severe restrictions on the movement of people.

Economic and fiscal effect, and policy response

The negative effect of the COVID-19 outbreak on the country's economy will be significant. Given BiH's geographical position and the relatively small domestic market, the real GDP contraction this year will be severe at around 5 percent, as demand collapses and supply chains are disrupted.

Tourism receipts have fallen significantly, with hotels currently operating at 10 percent capacity. BiH has also been severely affected by the disruption of its trade links, as a result of the situation in the EU, its largest trade partner. The current account deficit is further projected to deteriorate significantly due to the anticipated decline in remittances by over 10 percent.

At the current juncture, the authorities' immediately priority is to increase the ability to test for the coronavirus and secure more respirators, mobile x-ray machines, and protective equipment for healthcare providers. Overall the healthcare system in BiH is ill-equipped to deal with this outbreak. Most hospitals are operating at a loss, and arrears are significant. The system has recently been further weakened by a steady exodus of trained doctors and nurses to other countries. In this context, a surge in hospitalizations would quickly overwhelm the already limited capacity.

Against this background, the authorities plan to soon adopt revised budgets at all levels to integrate the new priorities. They expect the overall fiscal deficit to increase to around 4.5 percent this year due to substantially higher public health spending, social and economic support, and lower revenues following the border restrictions, as well as the contraction of economic activity in general. Targeted measures are planned to expand the existing social safety net and provide help to those most in need, including through unemployment benefits. Additional measures are under discussion with the business community to effectively support the most affected businesses and preserve employment. Fiscal surpluses averaging close to 2 percent of GDP in the last two years, together with large public sector deposits and excess banking sector liquidity, provide some space to address the immediate economic and social costs of the pandemic.

Monetary and financial policies

The authorities are committed to avoid foreign exchange or trade restrictions, or any other measures that would exacerbate the balance-of-payments difficulties. They will preserve the stability of the currency board and the Central Bank of BiH will not use its international reserves for fiscal purposes. The banks are currently liquid, well supervised, and in a relatively strong position to confront the crisis. Nevertheless, a protracted period of weak demand could cause businesses to experience liquidity shortages and lead to a surge in loan defaults. A six-month moratorium on loan repayments has been introduced, and the authorities consider other measures to provide relief for stressed but ultimately solvent borrowers. To further strengthen confidence and protect bank depositors, the authorities will seek adoption of the new Deposit Insurance Law and expeditiously move to conclude a credit line with the EBRD as a backstop.

Conclusion

The BiH authorities are confident that the policies outlined in their Letter of Intent will enable an effective use of the requested disbursement under the RFI in these extraordinary circumstances. They understand that preserving macroeconomic stability and putting economic growth on a higher trajectory over the medium term will be essential to sustain social stability and to create fiscal space for investment in human capital and infrastructure. The authorities are committed to resume fiscal consolidation once the consequences of the COVID-19 outbreak are contained, building on the progress achieved over the last years.

The BiH authorities will continue to consult with the Fund on their policies and provide staff with all the data and information necessary for the purpose of monitoring program implementation. They are hopeful that Fund financing will generate strong support from the donor community and would be grateful for a rapid response by both multilateral and bilateral donors.